



MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
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DATE: January 15, 2010

TO: Children, Families, Health, and Human Services Interim Committee

FROM: Lois Steinbeck
Senior Analyst

RE: Overview of Department of Public Health and Human Services Funding

BACKGROUND

Governor Schweitzer has asked executive branch agencies to submit plans by January 29 to reduce general fund spending by 5 percent (see attached letter from Budget Director Ewer). The general fund reduction target for the Department of Public Health and Human Services (DPHHS) is \$19.1 million.

The following pie charts show the 2011 biennium funding for DPHHS from the general appropriations act (HB 2) and the pay plan (HB 13) - \$3.2 billion total funds including \$705 million general fund. Generally FY 2010 expenditures from HB 2 and pay plan appropriations will form the starting point for the 2013 biennium base budget.

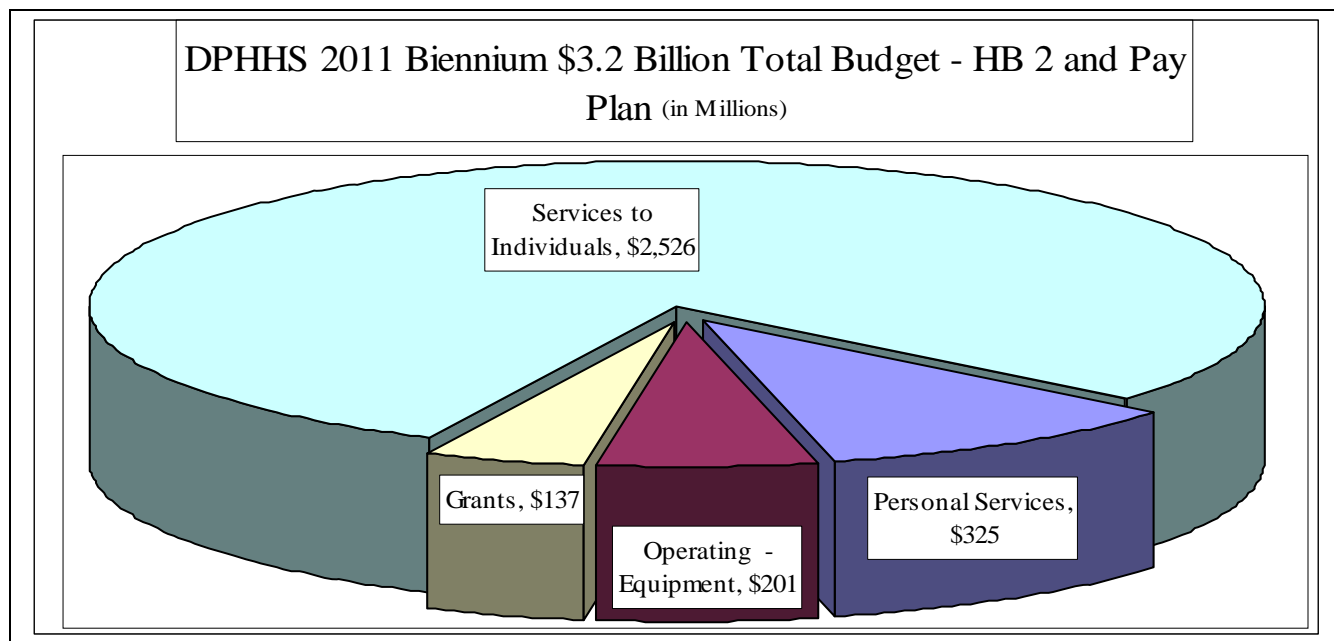
DPHHS also received \$514 million total funds, including \$65 million general fund, in one-time appropriations in HB 645, which implemented the federal American Recovery and Reinvestment Act of 2009 (ARRA). HB 645 funding is not included in the attached budget graphs due to its one-time nature.¹

USE OF FUNDS

The first pie chart shows the functions supported by the 2011 biennium appropriation. Most of the appropriation - \$2.5 billion or 80 percent - supports payments for services for individuals who are eligible for such programs as Medicaid, Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps), cash assistance, childcare, mental health, developmental disability, foster care, and subsidized adoption.

Personal services costs are about 10 percent of the total. Operating and equipment costs are about 7 percent and grant funds account for 5 percent. Examples of grants are funds awarded to local governments or non profit organizations that provide public services such as community aging services and weatherization services.

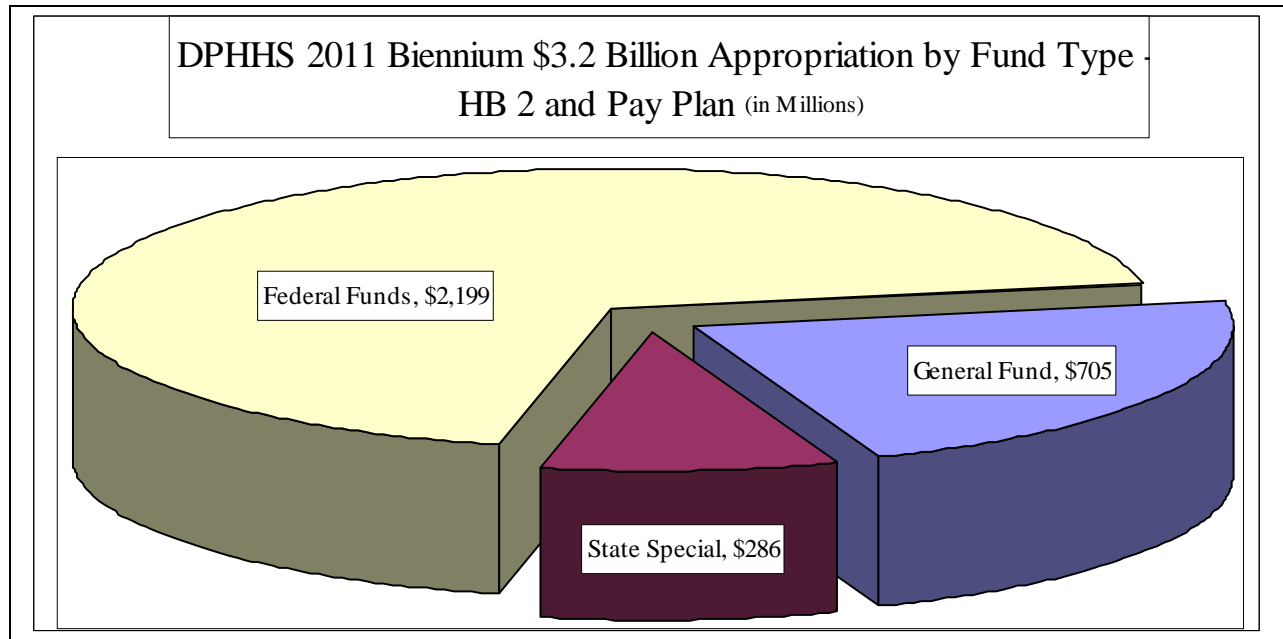
¹ The 2011 Legislature may be asked to continue some or most of the one-time funding in HB 645 because the appropriations support provider rate increases and community services such as aging services.



DPHHS FUNDING

DPHHS is funded by more than 190 distinct funding sources that are grouped into three major fund types: general fund, state special revenue, and federal funds. The use of most state special revenue and federal fund sources are governed by state and federal statute and rule. The restrictions on fund use are the most significant driver necessitating the need to establish and track distinct fund sources. For instance, the federal grant for Women, Infants, and Children (WIC) nutrition cannot be used to pay for low-income weatherization services. Another example is Montana state statutory language that allocates part of the insurance license tax to a state special revenue account to fund part of the cost of the Montana Healthy Kids (HMK) program. The legislature would need to amend state statute to allow the funds to be used for other purposes.

The second pie chart shows the \$3.2 billion 2011 biennium appropriation by fund type. Federal funds support \$2.2 billion or just under 70 percent of the total funding. General fund (\$705 million) supports 22 percent of the total. 2011 biennium general fund appropriations would be about \$97 million greater except the ARRA included a temporary increase in the federal Medicaid match rate. A higher federal match rate reduces the general fund match required for Medicaid services. A 1 percent change in the Medicaid match rate causes a \$7.5 to \$8 million change in the state funding required to pay for Medicaid services.



The most significant federal funding source pays for Medicaid services, accounting for \$1.3 billion or 41 percent of the total DPHHS appropriation. Other major federal sources are:

- o SNAP - \$232 million
- o Children's health insurance block grant that funds a part of the Healthy Montana Kids (HMK) program - \$144 million²
- o TANF (Temporary Assistance for Needy Families) block grant - \$49 million

Significant sources of state special revenue include:

- o Health and Medicaid Initiatives (tobacco tax increase added by citizen initiative) - \$74 million used for state Medicaid and HMK match, prescription drug costs for the Mental Health Services Plan, and the Big Sky Rx program³
- o Tobacco settlement and trust fund interest - \$48 million used for tobacco control and prevention, and state match for HMK and Medicaid
- o Hospital utilization fee - \$44 million used for Medicaid match to enhance payments to hospitals for services

GENERAL FUND

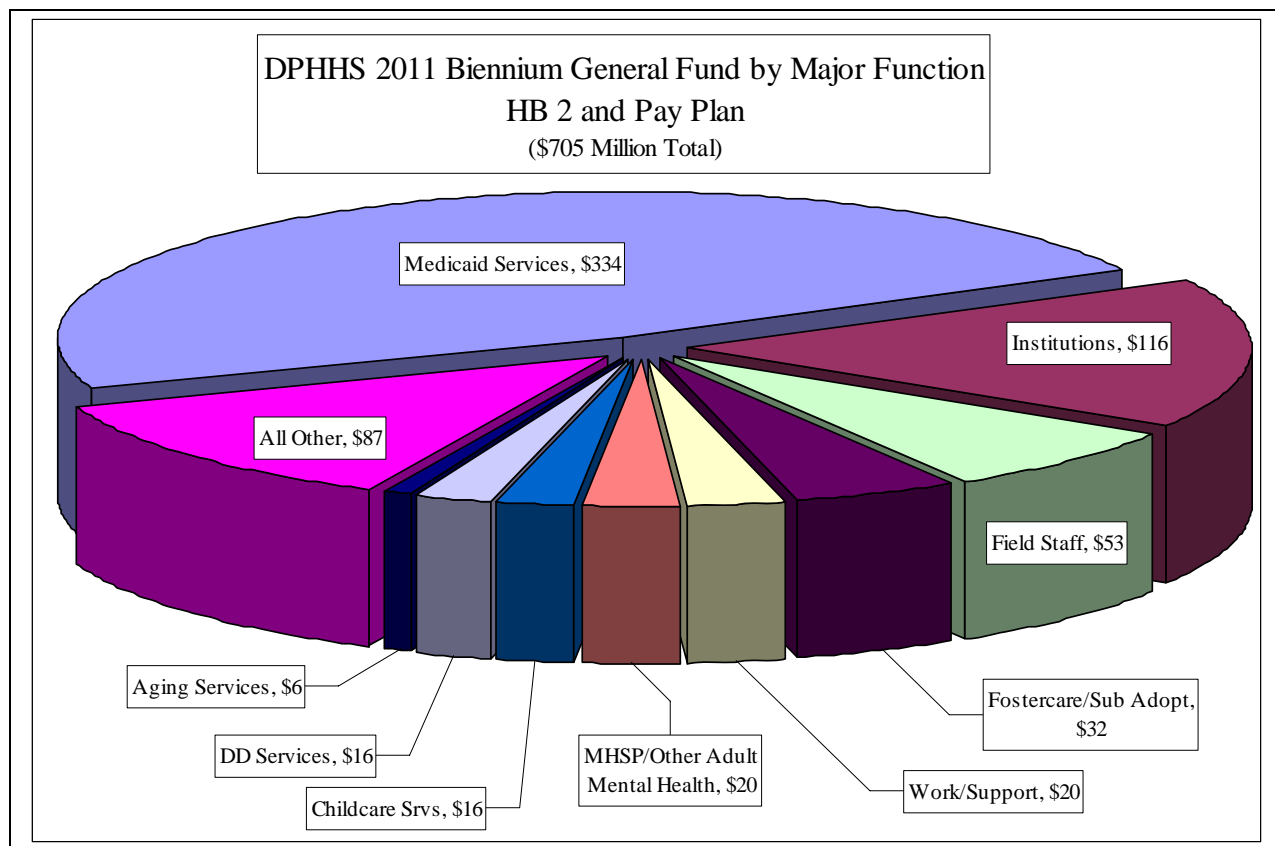
The major uses of general fund are shown in the third pie chart. General fund supports:

- o State match for Medicaid services - \$334 million⁴
- o State institutions - \$116 million
- o Field staff - \$53 million
- o Foster care and subsidized adoption - \$32 million

² The federal CHIP block grant appropriation is based on the assumption that the federal grant amount allocated to Montana will increase from an annual level of about \$32.4 million to \$56.0 million to fund HMK.

³ Health and Medicaid Initiatives state special revenue also supports the Insure Montana Program administered by the State Auditor.

⁴ As previously noted, the general fund appropriation for Medicaid services match is \$97 million lower due to the temporary increase in the federal match rate.



GENERAL FUND REDUCTIONS

DPHHS has implemented general fund reductions several times in the last 10 years. Historically the types of reductions implemented by DPHHS include reductions in:

- o Administrative cost savings due to holding positions open, limiting travel, and deferring equipment purchases
- o New programs due to elimination or delay in implementation of a program
- o Provider rates
- o Discretionary or permissive state programs (including elimination of such programs)
- o Medicaid eligibility or services

Recently, the most significant reductions occurred in FY 2002 and FY 2003 during a short economic down turn. Attachment 2 details the reductions made during that time frame, which totaled \$92 million including \$27 million general fund.

COMPLICATIONS THIS BIENNIUM

Reductions in Medicaid eligibility and potentially in Medicaid services will be problematic this biennium. State's eligibility for the enhanced federal Medicaid match rate, which generates an estimated \$154 million in general fund savings, is dependent on maintaining Medicaid eligibility levels as of June 2008. In some instances, the federal Centers for Medicare and Medicaid (CMS) has held that lowering the number of service slots in community waiver services

constitutes lowering eligibility. So it is difficult to determine how CMS may view reductions in Medicaid services for continued eligibility for the enhanced FMAP.

STATE STATUTORY REQUIREMENTS

The 2003 Legislature established funding principles in 53-6-101(2), MCA, that DPHHS and the legislature must consider when implementing changes in Medicaid policy that either increase or reduce services (see Appendix 3). Changes must:

- o Protecting persons who are most vulnerable and most in need, as defined by a combination of economic, social, and medical circumstances
- o Give preference to the elimination or restoration of an entire Medicaid program or service, rather than sacrifice or augment the quality of care for several programs or services through dilution of funding
- o Give priority to services that employ the science of prevention to reduce disability and illness, services that treat life-threatening conditions, and services that support independent or assisted living, including pain management, to reduce the need for acute inpatient or residential care

WHAT LEGISLATORS CAN EXPECT

If ongoing general fund spending at DPHHS is to be significantly reduced, legislators can expect that total spending cuts will be significantly larger due to the loss of federal matching funds. Additionally, it is very likely that significant general fund cost cuts could impact services to individuals. Examples of service impacts could be:

- o Slower customer service if field positions are held open for extended periods
- o New or longer waiting lists if optional programs are reduced
- o Less access to services if provider rate reductions that cause some providers to limit the number of Medicaid clients they will accept or if providers opt out of the Medicaid program
- o Elimination or delayed start up of new discretionary programs